THE IMPLEMENTATION OF AR RAHNU PRACTICES AS A MICRO FINANCING FACILITY: A STUDY OF BANKING AND NON-BANKING INSTITUTIONS

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Abstract

Ar-Rahnu, or Islamic pawn broking, is an alternative to conventional pawn broking based on Islamic principles. It provides a form of micro financing that adheres to ethical conduct, ensuring that no interest is charged. Through Ar Rahnu, individuals can access quick liquidity by pledging collateral. In a modern economy, there is no doubt that banks are a key contributor to the financial and economic prosperity. People, communities, and organizations depend on banks for the fulfillment of their financial resources and financial needs. Now, Ar Rahnu has been recognized and integrated to complement Islamic financial product offered by banking institutions. Simply put, Ar Rahnu is offered by banking institutions, in addition to Ar Rahnu institutions. Commonly, people access financing from banks. However, when it comes to accessing micro financing through Ar Rahnu, people tend to choose Ar Rahnu institutions over banks, even though the banks also offer Ar Rahnu services. This paper aims to critically review the current Ar Rahnu practices, the challenges faced by Ar Rahnu, and the solutions to Ar Rahnu challenges provided by both banking and non-banking institutions in the northern states of Perlis and Kedah. The study employed a qualitative approach by conducting in-depth interviews, and was restricted to a sample of only four different Ar-Rahnu providers. The data were analyzed using thematic analysis. The results show that the tawarruq concept is currently practiced and utilized among Ar Rahnu providers. All informants interviewed revealed different challenges, such as gold price volatility, fake gold pledged, and competition. Based on the results, several recommendations are made regarding the best practices for sustaining Ar Rahnu in the future.

Keywords: Ar Rahnu, micro financing, banks, Ar Rahnu institutions

Abstrak

Ar-Rahnu, atau pajak gadai Islam, adalah alternatif kepada pajak gadai konvensional berdasarkan prinsip Islam. Ia menyediakan satu bentuk pembiayaan mikro yang mematuhi kelakuan beretika, memastikan tiada faedah dikenakan. Melalui Ar Rahnu, individu boleh mengakses kecairan cepat dengan mencagarkan cagaran. Dalam ekonomi moden, tidak dinafikan bahawa bank adalah penyumbang utama kepada kemakmuran kewangan dan ekonomi. Orang ramai, komuniti dan organisasi bergantung kepada bank untuk memenuhi sumber kewangan dan keperluan kewangan mereka. Kini, Ar Rahnu telah diiktiraf dan disepadukan untuk melengkapkan produk kewangan Islam yang ditawarkan oleh institusi perbankan. Ringkasnya, Ar Rahnu ditawarkan oleh institusi perbankan, di samping institusi Ar Rahnu. Lazimnya, orang ramai mengakses pembiayaan daripada bank. Walau bagaimanapun, apabila ia datang untuk mengakses pembiayaan mikro melalui Ar Rahnu, orang ramai cenderung memilih institusi Ar Rahnu berbanding bank, walaupun bank juga menawarkan perkhidmatan Ar Rahnu. Kertas kerja ini bertujuan untuk mengkaji secara kritis amalan Ar Rahnu semasa, cabaran yang dihadapi oleh Ar Rahnu, dan penyelesaian kepada cabaran Ar Rahnu yang disediakan oleh kedua-dua institusi perbankan dan bukan perbankan di negeri utara Perlis dan Kedah. Kajian ini menggunakan pendekatan kualitatif dengan menjalankan temu bual mendalam, dan terhad kepada sampel hanya empat penyedia Ar-Rahnu yang berbeza. Data dianalisis menggunakan analisis tematik. Hasil kajian menunjukkan bahawa konsep tawarruq kini diamalkan dan digunakan dalam kalangan penyedia Ar Rahnu. Semua informan yang ditemu bual mendedahkan cabaran yang berbeza, seperti turun naik harga emas, emas palsu yang dicagarkan, dan persaingan. Berdasarkan keputusan tersebut, beberapa cadangan dibuat mengenai amalan terbaik untuk mengekalkan Ar Rahnu pada masa hadapan.

Kata kunci: Ar Rahnu, pembiayaan mikro, bank, institusi Ar Rahnu

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Thank You,

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List of Abbreviations

ARDC	Ar-Rahn Development Centre
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
BNM	Bank Negara Malaysia
CTOS	Credit Tip-Off Service
DFIA	Development Financial Institutions Act
FAMA	Federal Agricultural Marketing Authority
GLCs	Government Linked Companies
HPPNK	Hari Peladang, Penternak dan Nelayan Kebangsaan
IC	Identity Card
IFIs	Islamic Financial Institutions
IFSA	Islamic Financial Services Act
LTV	Loan-to-value
MAHA	Malaysia Agriculture, Horticulture and Agrotourism Exhibition
MGIT	Muassasah Gadaian Islam Terengganu
MOA	Ministry of Agriculture and Food Security
PDPA	Personal Data Protection Act
PDS	Product Disclosure Sheet
PKB	Permodalan Kelantan Berhad
PPK	Pertubuhan Peladang Kawasan
SAC	Shariah Advisory Council
YAPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Islamic pawn broking, commonly known as Ar Rahnu, is an Islamic alternative to conventional pawn broking. Ar Rahnu is a form of micro financing based on the principles of Shariah law by eliminating the elements of interest (*riba*), uncertainty (*gharar*), gambling (*maysir*), ignorance, and oppression. Ar Rahnu channels the facilities to obtain immediate liquidity to those in need with interest-free loans (*qard al-hasan*), where there is a charge for safekeeping fee (*ujrah*) instead of charging interest. It allows individuals to access short-term financing by pledging their valuable assets (*marhun*) such as gold or other valuables as a form of collateral.

Ar Rahnu is a charitable contract through the basis of *tabarru*, where it is recognized to function as a charitable financing without the purpose of profit generating. The legality of Ar Rahnu has been stated in hadith. The hadith most frequently cited regarding the pledging practiced by the Prophet (PBUH) is the one narrated by Aisha (RA):

"*Rasulullah bought some food on credit from a Jew and he pawned his steel armour as a collateral towards the seller*."

(Sahih al-Bukhari, 1987 no. 2374)

Based on the hadith, it is clearly stated that Ar Rahnu operates under unique rules to ensure the validity of the contract. These rules are completely different from conventional pawn broking, which follows man-made rules and involves interest-based transactions.

1.1.1 Ar Rahnu Providers in Malaysia: Banking and Non-banking

In Malaysia, the pioneer of Ar Rahnu began with the establishment of Muassasah Gadaian Islam Terengganu (MGIT) by the Terengganu State Government in 1992. Over time, it has developed into a popular micro financing facility, particularly for people without access to traditional credit facilities (Bahari et al., 2015). Apart from that, Ar Rahnu has been growing tremendously followed by banking institutions to offer Ar Rahnu services. The creation of Ar Rahnu in banking institutions aimed to offer the Muslim community a better alternative for financing methods that comply with Shariah (Hamid et al., 2014). The first Ar Rahnu scheme was run by Koperasi Bank Rakyat in 1993, in collaboration with Yayasan Pembangunan Ekonomi Islam Malaysia (YAPEIM). Currently, there are many Ar Rahnu providers, participating both through Ar Rahnu institutions and some banking institutions.

Table 1.1
List of Banking and Non-banking Institutions that Offer Rahn Product

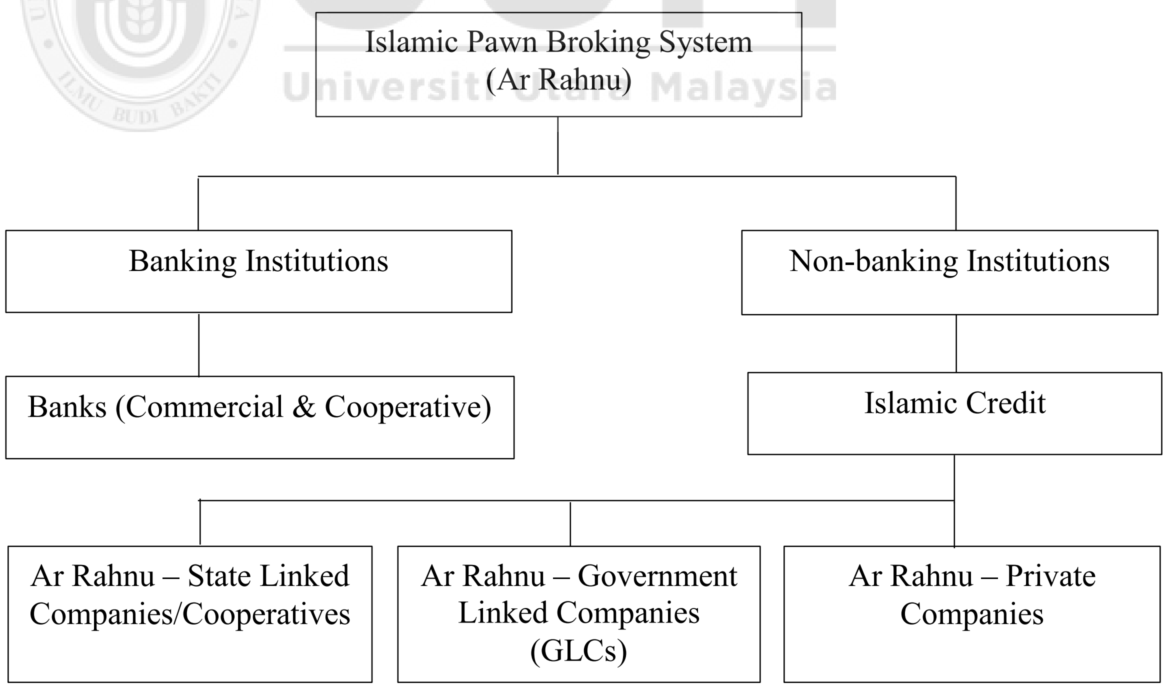
Banking Institution	Non-Banking Institution
RHB Bank CIMB Bank Bank Muamalat Bank Islam Bank Rakyat Agro Bank	Development Financial Institutions

Source: Zuki et al. (2023)

According to Table 1.1, it shows the Ar Rahnu services provided by banking and non-banking institutions in Malaysia as of 2023. The banking institutions that offer Ar Rahnu include RHB Bank, CIMB Bank, and Bank Muamalat, whereas non-banking institutions that offer Ar Rahnu consist of Development Financial Institutions. Under non-banking institutions, there are several categories. For example, the State's Company, which include Muassasah Gadaian Islam Terengganu (MGIT) and Permodalan Kelantan Berhad (PKB), and Co-operative under Foundation, such as Yayasan Pembangunan Ekonomi Islam Malaysia (YAPEIM). Pertaining to the regulators, Bank Negara Malaysia (BNM) regulates banking institutions that offer Ar Rahnu in accordance with the Islamic Financial Services Act (IFSA) 2013, while the Development Financial Institutions Act (DFIA) 2002 regulates non-banking institutions that offer Ar Rahnu (Baharudin et al., 2023). However, Ar Rahnu is governed by various regulators that enforce the guidelines and legal provisions related to the pawn broking sector, in accordance with the registration of the institutions involved, respectively (Bahari et al., 2021).

As banking and non-banking institutions are distinct entities governed by different regulators, it is reasonable to disclose the implementation of Ar Rahnu practices. It is crucial to ensure that Ar Rahnu, as one of the Islamic products in both institutions, complies strictly with Shariah principles and provides genuine Islamic products to customers. Ar Rahnu relies on underlying contracts, which require regular review to maintain their relevance and compliance over time. Despite Ar Rahnu being a tool for micro financing, the challenges must be addressed in order to identify potential factors that may arise. Overcoming these challenges requires institutions to ensure the sustainable provision of services that meet customer needs.

Figure 1.1
Structure of Islamic Pawn Broking Institutions in Malaysia



Source: Bahari et al. (2021) - with adjustment of the work

1.2 Problem Statement

Ar Rahnu is a medium of micro financing in Malaysia. Ar Rahnu services are not only offered by Ar Rahnu institutions, it is also offered by various Islamic banking institutions as part of their financial products (Bahari et al., 2022). In Malaysia, among Islamic banking institutions including Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB), the full-fledged of Islamic windows faced tremendous enhancement by integrated Ar Rahnu services to complement their Islamic financial product offerings. The Product Disclosure Sheet (PDS) is enclosed for the customer's reference before proceeding with any transactions (Faakihin & Hassan, 2018).

In Malaysia, the practice of Ar Rahnu is based on the same Shariah principles; however, variations in its implementation exist, particularly in management practices, procedures, and operational guidelines (Baharudin et al., 2023). Ar Rahnu, offered by both banking and non-banking institutions, faces concerns regarding the execution and legitimacy of its contracts. In banking institutions, Ar Rahnu involves a combination of contracts, which can lead to complexities in Shariah compliance (Zakariyah & Musah, 2018). This is critical because the validity of these contracts forms the foundation for Islamic financial products, ensuring their relevance and compliance over time. Therefore, it is crucial to examine the current Ar Rahnu practices and contracts in both banking and non-banking institutions to address these concerns.

Islamic banking institutions offer a diverse range of products and services. When customers visit these institutions, they encounter various counters dedicated to different offerings. However, there is a possibility that Ar Rahnu services may fail to establish a strong connection with customers. It is challenging for a scheme or banking products to simultaneously meet both Shariah compliance requirements and the commercial side, which is the bank's profit (Sharif et al., 2018). This situation could lead to the underutilization of Ar Rahnu services. Nevertheless, the public has responded favorably to Ar Rahnu institutions, particularly for obtaining liquidity services (Azman et al., 2020). Strategic approaches that Ar Rahnu providers, both in banking and non-banking institutions, should adopt to stay ahead in the Ar Rahnu sector.

Customer awareness is one of the key concerns of this study. While various financing options are available, especially for liquidity needs, many customers remain unaware of certain Ar Rahnu providers. For example, a significant number of customers were unaware that Agro Bank offered pawnshop services (Sam et al., 2010). This lack of awareness, combined with a preference for retail banking transactions, limits the potential of Ar Rahnu. Furthermore, obtaining financing with conventional pawn broking and issues like *riba* (interest) restrict its growth. Thus, customer awareness of Ar Rahnu is one of the factors to be taken into account in order to ensure that it becomes the market-driven key to success (Ghazali et al., n.d.).

Therefore, it is important to study the practicality of Ar Rahnu services offered by both Islamic banking institutions and non-banking institutions, as they are distinct entities. Ar Rahnu is essential because it is based on Islamic financial principles and serves as a substitute for conventional pawn broking, which relies on interest-based frameworks. However, a thorough analysis of the implementation of Ar Rahnu practices by banking and non-banking institutions, the challenges faced by each, and their respective solutions is lacking. As stated by Hsni et al. (2020), Ar Rahnu helps in obtaining financial assistance. Building on this, the study aims to explore the operations of Ar Rahnu providers in offering alternatives for people to access liquidity quickly and examine which institution best suit their financial needs. This study also aims to recommend several improvements for both types of institutions to enhance their Ar Rahnu services.

1.3 Research Questions

In order to attain stated research queries have been formulated:

1. What are the current practices of Ar Rahnu in selected Islamic banking institutions and non-banking Ar Rahnu institutions?
2. What are the challenges faced by selected Islamic banking institutions and non-banking Ar Rahnu providers in implementing Ar Rahnu?
3. How do selected Islamic banking institutions and non-banking Ar Rahnu institutions address the challenges in Ar Rahnu implementation?

1.4 Research Objectives

The study has aimed to solve all the research questions as to the following:

1. To examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions.
2. To study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers.

3. To explore the solutions implemented by selected Islamic banking institutions and Ar Rahnu institutions in addressing the challenges of Ar Rahnu.

1.5 Significance of the Study

The results of this study have significant to literature and practical implications. From a theoretical perspective, this study expands the existing body of knowledge on Ar Rahnu by analyzing the models and contracts applied by both banking and non-banking institutions, particularly in the implementation of *tawarruq*. This adds depth to the understanding of Ar Rahnu practices and their compliance with Shariah principles. On the practical side, the results provide valuable insights for Ar Rahnu providers to enhance consumer awareness strategies, especially in distinguishing Ar Rahnu from conventional pawnshops.

1.6 Scope of the Study

The scope of this study is focused on the primary objective of evaluating the implementation of Ar Rahnu services provided by both banking and non-banking institutions. The main objective of this study is to examine the actual operation of Ar Rahnu services across different entities governed by different regulators as well. The study covers selected Ar Rahnu providers in the northern states of Perlis and Kedah by approaching representatives from both institutions. This is because Perlis and Kedah are neighboring states in the northern region of Malaysia, predominantly rural, with many residents coming from low-income backgrounds, which allows for a more focused analysis in the study. Two representatives from banking institutions are Bank Rakyat and

Agro Bank, while two representatives from non-banking institutions are Ar-Rahn and Pos Malaysia.

1.7 Definition of Key Terms

Table 1.2
Key Definition

Terms	Operational Definition
Ar Rahnu	Ar-Rahnu, or Islamic pawn broking, is a process that involves a person pawning his or her gold to banks or any Islamic pawnshop as a security in order to obtain short-term financing (Ali et al., 2017).
Micro financing	Generally, 'micro' means small. As for micro financing, Onyekwelu et al. (2023) described it as a set of incentives offered through credit, loans, or facilities to support economic activities or business ventures.
Banking Institutions	Anyebe et al. (2021) explained that the term financial intermediaries is often used interchangeably with financial institutions to describe organizations, including banks, that are responsible for managing financial transactions, such as handling investments, receiving deposits, and disbursing funds to potential borrowers.
Non-banking Institutions	Kerlinová & Tomášková (2015) stated that non-bank institutions serve as a substitute for banks by offering financial services to both individuals and businesses. They specialize in serving a particular type of client — those who have deficits.

1.8 The Organisation of the Study

In order to achieve the objectives of this study, the study is organized as follows:

This study begins with a brief introduction to Ar Rahnu, highlighting its role and the institutions involved in providing Ar Rahnu services in Malaysia. The chapter then outlines the problem statement, several research questions, and the research objectives. This section also includes the significance of the study, the scope of the study, the definition of key terms, and a brief outline of the overall structure of the study.

Next, the study focuses on the conceptual framework and the literature review. It also provides a basic understanding of the study's theme, supported by a discussion of previous studies on the implementation of Ar Rahnu practices. The main objective of the literature review is to identify the research gap between previous studies and this research. This chapter will discuss the concept of Ar Rahnu, including its origins, history, and implementation, with a focus on both institutional and practical aspects.

The study then presents the research methodology employed. It provides a detailed explanation of the qualitative approach used in this study. This chapter also discusses the research design, population and sampling technique, and data collection methods. Since a qualitative method was applied, detailed steps for conducting in-depth interviews are provided, including expert review, fieldwork, and the preparation of the interview transcript. Finally, the chapter concludes with an explanation of the data analysis process.

Subsequently, the study discusses the results. Once the data have been analyzed, the organization of the data analysis follows the research method discussed in the previous chapter. All the research questions are answered to accomplish the main objectives of this study, and the results are presented according to the data analysis. The results of this qualitative research on the implementation of Ar Rahnu in both banking and non-banking institutions are derived from several interview sessions. The purpose of this method is to explore the Ar Rahnu services offered by these institutions. Based on the results, this chapter explains how Ar Rahnu services work in both institutions and the challenges faced by Ar Rahnu in the states of Perlis and Kedah. Solutions to Ar Rahnu challenges are also discussed in this chapter. Additionally, this chapter provides empirical evidence and contextualizes the results.

Last but not least, the final chapter provides a summary of the results of the study. This chapter also discusses the limitations of the study. After identifying these limitations, the researcher proposes several recommendations related to the study. The chapter concludes with appropriate recommendations concerning Ar Rahnu services for improvement.

1.9 Conclusion

To sum up, the research on the implementation of Ar Rahnu practices has been discussed by numerous academic scholars and researchers. However, there is a lack of studies focusing on the implementation of Ar Rahnu practices in both banking and non-banking institutions in the northern states of Perlis and Kedah. Hence, this chapter presents an overall scenario regarding the background of the research concerns. In the next chapter, a detailed review of the previous literature related to this study will be discussed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter begins with a literature review, followed by a discussion of the conceptual framework and the underpinning theory. It explains the details of Ar Rahnu and micro financing as tools that enable people to access financing, supported by previous studies. The facilities of Ar Rahnu as a form of micro financing in Malaysia are not new topics of discussion. Previous studies have explored various aspects of Ar Rahnu, but the scope of study on its facilities as a micro financing tool remains broad and underexplored. Therefore, this study analyzes past research from academic scholars, which forms the basis for this study, with a focus on the implementation of Ar Rahnu services, particularly those offered by banking and non-banking institutions in the northern states of Perlis and Kedah.

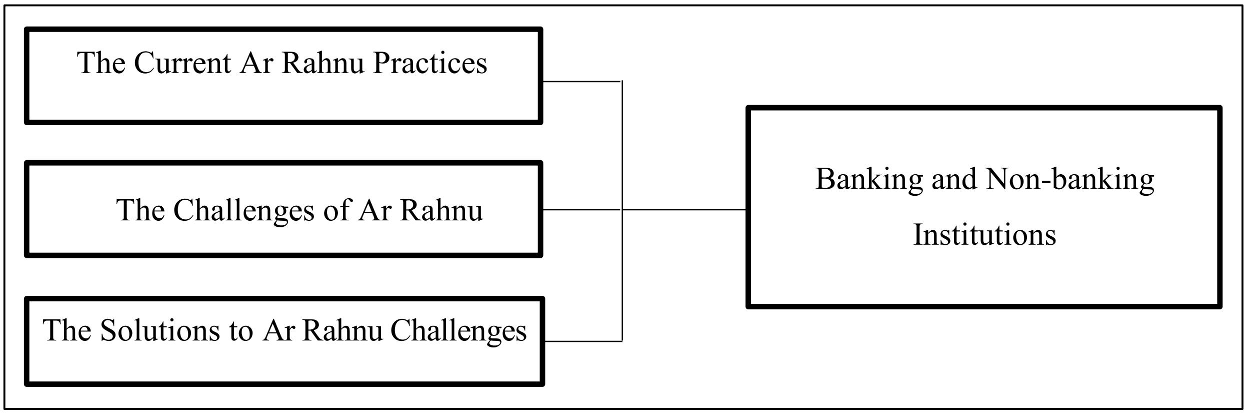
2.2 Conceptual Framework

According to Varpio et al. (2020), a conceptual framework serves as the the rationale for why a particular study is conducted. To be added, a conceptual framework serves several purposes in research. First, it provides an overview of the status or current level of existing knowledge on a topic, typically through a literature review. Then, it identifies areas where there are gaps in our knowledge about a phenomenon or issue, and finally, it outlines the research methods and theoretical foundations that will guide the study. In short, a conceptual framework in research is used to understand a research problem and guide the development and analysis of the study. As a result, the conceptual framework plays a crucial role in defining and shaping the phenomenon to be investigated throughout the research.

The main goal of Ar Rahnu is to provide a Shariah-compliant pawn broking service, serving as an Islamic alternative to conventional pawn broking. It allows individuals to obtain short-term funding by pledging valuable assets, such as gold, as a form of collateral. This service benefits those facing financial crisis by offering a micro financing facility through Ar Rahnu. Moreover, Ar Rahnu eliminates practices such as interest, uncertainty, gambling, ignorance, and oppression in financial transactions. Currently, Ar Rahnu is not only offered through dedicated Ar Rahnu institutions but has also been integrated into and expanded across various Islamic banking institutions as part of their financial products. Therefore, this study suggests a conceptual framework for Ar Rahnu providers, including both banking and non-banking institutions, based on theory, prior studies, journals, documents, and other related resources.

The researcher aims to identify Ar Rahnu practices between banking and non-banking institutions, where Ar Rahnu serves as a micro financing facility, by investigating current Ar Rahnu practices, the challenges associated with Ar Rahnu, and potential solutions to Ar Rahnu challenges. The researcher has constructed a conceptual framework for this study, as illustrated in Figure 2.1.

Figure 2.1
Conceptual Framework



Source: Developed from this study

2.3 Underpinning Theory

2.3.1 Institutional Theory

An institution is an established organization or entity that serves a particular function in a community. There is a theory in institutional studies that explores how structures, norms, and behaviors interact within an institution, influenced by the surrounding environment. This theory refers to institutional theory and it was developed in the late 1970s and gained prominence in the early 1980s (Cuofano, 2024).

Institutional theory is a theoretical framework that describes the development of social structures and processes, including rules, norms and others that govern both individual and organizational behavior in society (Coccia, 2019). According to institutional theory of organization, in order for an organization to be legitimate and supported, it must adhere to external or societal norms, regulations, and requirements (Chowdhury, 2015). By this, organizations must indirectly comply with environmental regulations, as this theory encourages the stakeholders of organizations to develop operations that align with social views and opinions by monitoring daily activities accordingly. As highlighted by Iswaissi & Falahati (2017), institutional theory is a well-recognized theoretical viewpoint in a variety of fields, including corporate governance, management, and accounting.

Institutional theory has been divided into three forms consisting of coercive isomorphism, mimetic isomorphism, and normative isomorphism (Fernando & Lawrence, 2014). As for coercive isomorphism, it strongly relates with external factors like government policy as it occurs due to its powerful position that can coerce management in organization to adopt particular practices. Mimetic isomorphism refers to action taken by an organization that facing uncertainty or failure to duplicate the methods of other successful organizations, mostly to gain in terms of legitimacy, whereas normative isomorphism relates to dealing with the emergence pressures that arise from shared beliefs among society for an organization to embrace the dominant institutional practices.

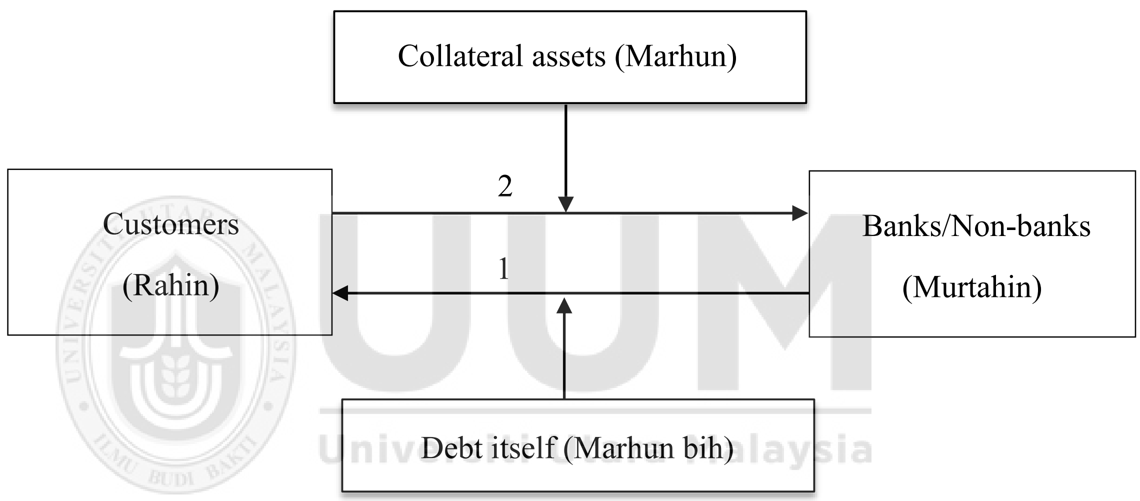
To relate institutional theory to financial institutions, whether banking or non-banking institutions, both of which offer Ar Rahnu services, are shaped by institutional pressures. As they serve as different entities, they should adapt in different ways to certain circumstances arising from external factors, which hold significant power. Various forces influence these organizations to adopt certain financial practices, including comply with Shariah regulations, meet with government policies, and respond to societal demands for ethical micro financing. Some of these pressures may lead to changes in existing practices. In organizations, managers should strive to adhere to several standards that are heavily enforced. With institutional theory, it helps organizations adopt practices established by others in order to meet standards and expectations in the pawn broking sector.

2.4 Ar Rahnu in Malaysia

There is no doubt that conventional pawn broking plays a significant role in society at the initial stage. In the Malaysian scene, particularly within the financial system, the dual system of pawn broking services consist of both conventional and Islamic pawn broking institutions, referred to as Ar Rahnu (Bahari et al., 2021). However, the presence of Ar Rahnu has drawn attention in Malaysia and prompted involvement from the general public, particularly among low-income groups (Othman & Abdullah, 2019). Ar Rahnu differs from conventional pawn broking through the use of various Islamic concepts such as *qard al-hasan* (benevolent loan), *kafala* (guarantee), *wadiah yad dhamanah* (guaranteed storage), and *ujrah* (safekeeping fee).

As highlighted by Yahaya et al. (2022), in Malaysia, Ar Rahnu utilizes the *qard al-hasan* contract, known as a welfare loan. In this arrangement, the borrower is only required to pay the principal amount of the interest-free *qard al-hasan* loan, without any interest charges. The Malay community has actually adopted *qard al-hasan* as a result of mutual assistance among family, friends, and neighbors, particularly when it comes to loan-related matters. With valuable assets as collateral, individuals can access Ar Rahnu services for short-term financing, whether through banks or non-bank institutions. Abdullah (2019) mentioned that, *qard al-hasan* (benevolent loan) and *kafala* (guarantee) are widely used in microfinance practices as well as in banking products and services.

Figure 2.2
Ar Rahnu Structure



Source: Tahir & Ahmad (2009)

Based on Figure 2.2, it illustrates how Ar Rahnu works through several steps.

1. Banks or non-bank institutions provide debt to customers, who then receive a certain amount of money as debt.

2. The customers pledge collateral assets to banks or non-bank institutions to ensure debt payment, and then repay the debt within a specified time frame to reclaim the collateral assets.

2.5 Micro financing

Generally, ‘micro’ means small, while ‘financing’ refers to the process of providing capital or funds to support a particular project, business, or individual. Micro financing tools are used for various purposes, depending on the borrower’s intentions, whether for investment, operations, or personal reasons. According to Mazakaza & Odoyo (2022), micro financing first emerged as a single microcredit product provided to those without a predictable source of income who were unable to secure collateral or guarantees to borrow money from the traditional financial sector. The micro financing tool gained significant interest in 1983, particularly through the establishment of Grameen Bank in Bangladesh by economics professor Muhammad Yunus, who invented the microcredit model that has since been imitated globally. Micro financing in this study is related to Ar Rahnu. As stated by Naqiuddin Muda et al. (2024), Islamic pawn broking, also known as Ar Rahnu, is recognized by practitioners, scholars, and other stakeholders as one of the micro financing instruments used by Muslims. Subscribing this view, Azman et al. (2020) revealed that in Malaysia, both bank and non-bank institutions also provide micro financing.

2.6 The Implementation of Ar Rahnu Practices

2.6.1 Types of Contracts

One of the foundations of Islamic finance is Shariah compliance. However, issues may arise due to several circumstances, including Ar Rahnu. Throughout the expansion of the Ar Rahnu business, there is no denying that it has been exposed to Shariah non-compliance issues as part of it (Bahari et al., 2024). There are a number of different underlying contracts for Ar Rahnu, including *qard al-hasan* (benevolent loan), *rahn* (pledge), *wadiah yad amanah* (trustworthiness), *wadiah yad dhamanah* (guaranteed storage), and *ujrah* (safekeeping fee) (Faakihin & Hassan, 2018).

Ar Rahnu product structure, which combines *qard* (loan), *rahn* (pledge), *wadiah* (safekeeping), and *ujrah* (safekeeping fee) provided by Islamic financial institutions (IFIs) does not satisfy the Shariah requirements outlined in the Rahn Policy Document (BNM, 2019). One of the reasons is that the Ar Rahnu structure, which combines the pledge and loan contract for profit-making purposes, is not aligned with the *muqtada al-Aqad* (contractual objectives) of both contracts. The former is intended for securing collateral, while the latter is meant to assist in financial need without profit. This issue was addressed and resolved by the Shariah Advisory Coucil (SAC) of BNM in its 195th meeting on 31st July 2019.

Faakihin & Hassan (2018) asserted that, due to the incompatible *muqtada al-Aqad* (contractual objectives) of both the *rahn* (pledge) and *wadiah* (safekeeping) contracts, the combination could not be harmonious. This combination violates the primary characteristic of *rahn*, where the pledgor can only obtain the collateral assets after the debt has been paid off, whereas in a *wadiah* contract, owner's right allows the return of the property in safekeeping at any time. The previous study by Bahari et al. (2022) reported that the adoption of a new Shariah structure, based on *tawarruq*, in the Ar Rahnu scheme is an alternative to address the arising Shariah concerns. According to Jamaludin et al. (2023), failure to adhere to the guidelines and principles could lead to the Ar Rahnu objectives not being met, which may result in non-compliance with the major goal of Shariah in muamalat.

2.6.2 Regulatory and Shariah Governance

Apart from the business activities, the leading role in an organization starting from the top to bottom of divisions has to ensure the smoothness in implementing Shariah governance. Alam et al. (2019) have revealed that the Shariah governance system is an essential concern for IFIs. One of the institutions that Rasmin & Markom (2014) reported as being required by BNM was the Ar Rahnu Malaysian Post Office institution, which was found not to have set up its own Shariah advisory board. Malaysia Post also demands that 3% of the property value be deducted to cover auctioning costs. As a result, this is in opposition to Islamic law due to the lack of Shariah monitoring in Ar Rahnu.

As for banking institutions, in order to start or offer Islamic banking products, BNM mandates that conventional banks establish a Shariah advisory board within their respective institutions (Rasmin & Markom, 2014). Shariah advisors are crucial to the regulation of Islamic financial products, including Ar Rahnu (Asiah & Dziauddin, 2017). This is consistent with the justification provided by Bahari et al. (2015), which states that Ar Rahnu operators are required to have their own internal Shariah legal advisors to oversee their operations and ensure adherence to Shariah standards. Shariah governance organs are essential to the business operations of Ar Rahnu to mitigate Shariah non-compliance risks and protect the industry's reputation (Bahari et al., 2021).

2.6.3 Financial Aspects of Margin and Safekeeping

Most customers prioritize the margin of financing when seeking liquidity. Islamic pawnshops offer financing options ranging from 50% to 70% of the *marhun* (collateral assets) (Faakihin & Hassan, 2018). However, Naqiuddin Muda et al. (2024) stated that the Ar Rahnu scheme offers only about 65% to 80% of the *marhun* value. In comparison, conventional pawnshops provide higher loan margins of up to 85% to 90%, giving them a 90% loan provision advantage over Islamic pawnshops, which attracts more customers. Some illicit sources, such as loan sharks or Ah Long, offer up to 90% or even 100% without collateral (Cheong & Sinnakkannu, 2012). Regarding the financing margin limits, Rasmin & Markom (2014) mentioned that Ar Rahnu institutions can set their own margin limits, with a minimum lending margin of 10% and a maximum lending margin can go up to 80% of the *marhun* value. Additionally, Azman et al. (2022) clarified that margin values vary across different Ar Rahnu outlets as they compete for customers. There is no doubt that customers seek favorable margin values (Othman et al., 2013). As competition grows, Ar Rahnu providers, both banking and non-banking, must offer competitive margin values.

In the implementation of Ar Rahnu, *ujrah* (safekeeping fee) is charged instead of interest, which is a key distinction from conventional pawn broking. Bahari et al. (2015) stated that customers pay lower safekeeping fees to Ar Rahnu operators compared to conventional pawnbrokers, who charge up to 2% interest on the loan amount in addition to a service charge (Hisham et al., 2013). The *ujrah* is charged by Ar Rahnu providers for the custody, storage, and protection of collateral assets. Typically, *ujrah* is calculated based on RM100 of the *marhun* value (Rasmin & Markom, 2014), and fixed from the outset in the contract on a monthly basis (Azman et al., 2020). Even though Ar Rahnu provides financing without charging interest, customers facing a financial crisis are still required to pay *ujrah*. Azman et al. (2015) highlighted that service charges are a major concern, with customers typically preferring the lowest fees. This preference is further supported by Saiman & Mohd Zainuddin (2022), who noted that customers always choose the least expensive service charge among the various available options. As noted by Hamid et al. (2014), the lower charge of Ar Rahnu helps reduce the 'loan' cost, thereby easing financial stress on customers. Therefore, determining the safekeeping fee is crucial to ensuring customers understand their financial obligations and prevent defaults.

2.7 Conclusion

Finally, this chapter provided a detailed discussion of the previous literature from scholars, gathered by the researcher to gain a deeper understanding of Ar Rahnu. It began with the definition of Ar Rahnu, the history of micro financing, and the implementation of Ar Rahnu practices. The next chapter will explain the methodology used in this study to collect data on Ar Rahnu services provided by banking and non-banking institutions in the northern states of Perlis and Kedah.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology used in this study. Research methodology refers to the methods and processes employed to find and analyze data related to a particular research topic (Sreekumar, 2023). This chapter outlines the procedures and approaches undertaken by the researcher to conduct the study. All appropriate methods have been employed to achieve the research objectives. The objectives of this study are divided into three main parts: (1) To examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions, (2) To study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers, and (3) To explore the solutions implemented by selected Islamic banking institutions and Ar Rahnu institutions in addressing the challenges of Ar Rahnu, in the northern states of Perlis and Kedah.

In this chapter, a detailed explanation of the nature of the study will be provided. Simply put, this chapter outlines how the research will be conducted. It will describe the qualitative research methodology used in this study, including the research method, research design, population and sampling technique, data collection method, and other relevant aspects. This study employs a qualitative research methodology, which is primarily exploratory and aims to understand underlying reasons, opinions, and motivations. It uses unstructured methods, such as individual interviews, group discussions, participation, and observation. In contrast, quantitative research generates numerical data and is much more structured than qualitative methods. For this study, the researcher has used qualitative methods to address the research objectives. In-depth interviews were conducted with four informants, all of whom were Ar Rahnu officers: two from banking institutions and two from non-banking institutions.

3.2 Research Design

A research design is one of the processes in research methodology. According to Singh (2023), a research design is a plan or framework employed to carry out a research study. It involves describing the overall strategy and methods that will be used to gather and analyze data in order to answer the research questions.

Along with the qualitative approach, this study also employs an exploratory study. An exploratory study is a methodical approach to understanding a subject that requires clarification, deeper study, or a more thorough understanding (Saha, 2024). This study uses an inductive approach, which focuses on observing data and drawing conclusions from it (Susilawati et al., 2019). Also known as a bottom-up approach, it starts with specific observations of a social phenomenon. Data is then collected to understand why it occurs, followed by the identification of patterns and the formation of general conclusions or theories.

The research design outlines how the study will be conducted. The main objective of this qualitative research is to explore Ar Rahnu practices among banking and non-banking institutions in the northern states of Perlis and Kedah. An exploratory research design was chosen to collect qualitative data through interviews. Qualitative methods were selected to address the uncertainties surrounding the topic and clarify key aspects. Insights from practitioners in the Ar Rahnu field, particularly their knowledge, experience, understanding, views, and skills, are essential. The researcher believes that the qualitative data gathered from these practitioners will provide valuable and reliable information on current Ar Rahnu practices in both banking and non-banking institutions. Additionally, this study aims to analyze the challenges related to Ar Rahnu as a micro financing facility and explore potential solutions. The research objectives are explored through interviews with Ar Rahnu officers from both banking and non-banking institutions. Table 3.1 below presents the research design adopted in this study.

Table 3.1
Research Design

Research Objectives	Design/Approach	Data Analysis
1. To examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions.	In-depth interview	Thematic analysis
2. To study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers.	In-depth interview	Thematic analysis
3. To explore the solutions implemented by selected Islamic banking institutions and Ar Rahnu institutions in addressing the challenges of Ar Rahnu.	In-depth interview	Thematic analysis

Source: Developed from this study

3.3 Population and Sampling Technique

The population refers to the entire group of people or things that the researcher wants to investigate. It can also be understood as the larger unit from which the sample is derived. For this study, the population consists of Ar Rahnu institutions, both banking and non-banking institutions, in the northern states of Perlis and Kedah. Table 3.2 presents a list of these institutions.

Table 3.2
Ar Rahnu Institutions in Perlis and Kedah

Institution	**Perlis State**	**Kedah State**
Bank Rakyat	2	5
Ar-Rahn	1	1
Pos Malaysia	1	5
YAPEIM	3	13
Affin	-	1
RHB	1	1
Total	8	26

Source: Rasmin & Markom (2014) - with adjustment of the work

According to Alvi (2016), a sample is a group of comparatively fewer individuals chosen for research purposes from a population. The qualitative study utilized at least three approaches to select the sample: convenience sampling, purposive sampling, and theoretical sampling (Ritchie et al., 2014). This study applied purposive sampling, which is confined to specific types of people who can provide the desired information. The sample used in this study was expert sampling based on the informants' expertise.

To answer the research questions, in-depth interviews were conducted with four informants, all of whom were Ar Rahnu officers. These informants were selected based on their specialization to ensure that the research objectives were achieved. The number of informants was deemed sufficient to achieve data saturation, with two informants from banking institutions and two from non-banking institutions, ensuring a comprehensive response to the research questions. The informants were selected from Bank Rakyat, Agro Bank, Ar-Rahn, and Pos Malaysia. These institutions were randomly chosen to ensure a diverse sample, representing both banking and non-banking institutions, and were selected for their significant presence in the northern states of Perlis and Kedah, as well as their availability and willingness to participate in the study. Their cooperation provided valuable insights into the practices of Ar Rahnu officers in the region. Table 3.3 provides the list of informants and their respective institutions.

Table 3.3
List of Informants and Institutions

Informant	Informant Code Name	Institution
Amirul Akhyar	P1	Bank Rakyat, Sungai Petani, Kedah
Hafiza	P2	Agro Bank, Simpang Empat, Perlis
Ismail	P3	Ar-Rahn, Kangar, Perlis
Faizah	P4	Pos Malaysia, Kangar, Perlis

Source: Developed from this study

3.4 Data Collection Method

A data collection method refers to the approach or technique used to gather information or data for research or analysis, depending on whether the study is qualitative or quantitative. As for data collection methods in qualitative research, Barrett & Twycross (2018) highlighted three main methods of gathering data: interviews, focus groups, and observation, which offer researchers deep and comprehensive insights.

This study applied only in-depth interviews. Personal and unstructured interviews were conducted to explore informants' emotions and thoughts about the research. By using this method, the researcher focused on their expertise and experience in analyzing the data. Data collected through this method reflects the researcher's personal interaction with the informants, rather than responses from anonymous participants in a survey.

In this research, open-ended semi-structured interviews were conducted with interviewees, each lasting about 30 minutes. The interviews were conducted face-to-face between the researcher and the informants. During these sessions, clarifications on further questions were obtained on the spot. The sessions were recorded both by writing and with a voice recorder, transcribed, and then interpreted for further analysis. To align with the research objectives, several questions were asked of the informants, covering three main themes. The themes of the questions posed to the informants are described below.

3.4.1 Theme: The Current Ar Rahnu Practices

The researcher intends to examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions. To address the research objectives, the following questions have been developed for the interview sessions:

1. What are the current Ar Rahnu practices?
2. What are the Ar Rahnu policies?
3. Does the current Ar Rahnu practice effectively meet the needs of both the institutions and the customers?

3.4.2 Theme: The Challenges of Ar Rahnu

As Ar Rahnu providers, whether Islamic banking institutions or Ar Rahnu institutions, they may face various challenges throughout their Ar Rahnu activities, which could arise from different circumstances. The researcher intends to study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers. To address the second research objective, the researcher has developed the following interview questions:

1. What are the main issues in running the Ar Rahnu service?
2. What is the customer's response to the Ar Rahnu institution?
3. Some Muslims prefer conventional pawn broking. What are the driving factors in that direction?

3.4.3 Theme: The Solutions to Ar Rahnu Challenges

The researcher intends to explore how selected Islamic banking institutions and Ar Rahnu institutions, as Ar Rahnu providers, offer solutions to the challenges they face. To address the third research objective, the researcher has developed the following interview questions:

1. What is the best plan to mitigate the main issues in running the Ar Rahnu service?

2. What kinds of innovations have been introduced to increase the attractiveness of the Ar Rahnu service?

3. How do you maintain Shariah compliance in the Ar Rahnu service to maintain customer loyalty?

3.5 Expert Review

Expert review is commonly used in qualitative research. According to Caley et al. (2014), expert knowledge has several uses in research and is a valuable source of information. A researcher can enhance the quality of the data obtained by improving the validity and reliability of the interview protocol. The protocol has been validated and reviewed by an expert to ensure that the questions align with the research objectives and are appropriately constructed. Dr. Noraziah Che Arshad, as an area expert, reviewed and validated the questions, ensuring they were tailored to suit the research context, particularly for banking and non-banking institutions. Corrections were made as advised to ensure that the interviewees could easily understand the purpose of the questions, thereby facilitating the achievement of the research objectives.

3.6 Pilot Study

Generally, a pilot study is conducted to pre-test the effectiveness of research instruments, serving as an initial step in the overall research process. Furthermore, it provides valuable insights for the researcher and is an important component of good research. A pilot study is crucial for enhancing the quality and effectiveness of the primary research.

By conducting a pilot study, the researcher was able to validate the interview questions. The validation process involved a review and discussion by an area expert to ensure that the questions would provide the necessary answers to achieve the research objectives. Simultaneously, the pilot study was conducted to ensure that the informants could understand the interview questions before the actual interview sessions.

The pilot study was conducted by the researcher with Mrs. Faizah, the Ar Rahnu officer at Pos Malaysia, Kangar, Perlis, on January 16, 2025. The study took 22 minutes to complete. From the pilot study, it was found that the questions were easy to understand and were arranged in a way that reflected the difficulty level well. This was evident from the informant's responses to the questions.

Therefore, based on the pilot study, the researcher made improvements to the questions for other Ar Rahnu officers. Basically, the questions asked were the same. The only difference was in how the questions were phrased.

3.7 Fieldwork

The actual fieldwork was conducted after the researcher obtained consent from the informants to meet and be interviewed. Various methods of communication were used to stay connected with the informants, such as official letter, telephone calls, and email. Their responses to these communications were confirmed through these channels, with verbal confirmation being the most common. Overall, the interviews were conducted face-to-face. Fieldwork was carried out between January and February 2025 with four informants.

3.7.1 Interview Stages

In the actual fieldwork, the interview session begins as stated in the interview protocol. This session is divided into three stages: entry, during, and exit. The stages can be classified as follows:

a. Entry Stage

In the entry stage, the researcher begins the session by greeting the informants, and expressing appreciation for their time and participation in the interview. Next, the researcher asks introductory questions to gather basic background information, such as the informants' names and their years of experience in the Ar Rahnu field. The researcher then introduces herself and explains the purpose of the interview. This is followed by a briefing covering confidentiality, regulations, the duration of the session, and the interview process. Additionally, the informants are reassured about the confidentiality of the interview material. Simultaneously, the researcher requests permission to record the interview and provides the interviewees with an opportunity to ask any questions if something is unclear before moving on to the next question.

b. During Interview

The most challenging stage was during the interview, where the researcher needs to use various soft skills to handle the session. During the interview, the researcher should be aware of the informants' readiness before starting. Once they are ready to be interviewed, the main questions will be asked, and probe questions will be used during the interview to encourage them to elaborate on their answers and provide deeper insights.

Additionally, the researcher must ensure that the information provided is relevant to the research. If the informants' answers are unclear, the researcher should use probing techniques to clarify and ensure that the responses align with the questions. The entire process requires the researcher to listen, ask questions, probe, record, and summarize the responses. In addition to recording the session through note-taking and a voice recorder, the researcher may comment on or summarize the answers to make the session more interactive. Therefore, at this stage, the researcher should listen carefully and summarize the responses to ensure that the required information is obtained. Finally, the interviewees should be informed when the session reaches the final question, and their answers should be summarized, highlighting the insights gained from the interview.

c. Exit Stage

The exit stage marks the conclusion of the interview and serves as a recap session between the interviewer and the interviewees. The researcher expresses gratitude for the time the interviewees spent participating in the session and offers a polite farewell before leaving the location. The interview was successfully carried out as planned, in a positive atmosphere. All informants possessed extensive knowledge and experience as practitioners in the Ar Rahnu field, which positively impacted the researcher.

3.8 Interview Transcript Preparation

The research process continued with the preparation of interview transcripts. After the data collection period, the researcher immediately began transcribing the recordings from each session. This step was carried out promptly to ensure that no information was overlooked. The transcribing process took time to ensure an accurate transcript for each interview. Initially, the transcripts were transcribed in Malay and later translated into English for writing purposes. This was done by referring to the notes taken during the interview session and the recordings on the voice recorder.

3.9 Analyzing Data

Once the complete transcript was ready, the process of data analysis began. Data analysis is a key part of qualitative research that differentiates it from quantitative methods. It involves the organization of collected data which, in qualitative research, is recorded in terms of words rather than numbers. According to Ravindran (2019), the process of data analysis in qualitative research is iterative and intricate. The analysis was conducted with the help of Google Collaborators software to convert the audio recordings into text. All interview data were recorded in transcript form, and the researcher conducted multiple readings of the transcripts to develop a basic understanding of the data.

In qualitative research, themes are used as descriptors, attributes, elements, and concepts to help organize groups or identify recurring ideas. The researcher began by identifying significant parts of the data, particularly sentences that related to the research questions or key topics. This is the first step of coding. Next, the researcher labeled these sections with short codes, which are words or phrases that represent the main idea in each part. The researcher then grouped similar codes together to form broader themes. The final step in data analysis is drawing conclusions and verifying findings. This is the essence of data analysis. The researcher examines the themes to understand how they connect, identify patterns, and determine their significance in answering the research questions. For this research, the researcher analyzed the data collected from all the informants.

3.10 Trustworthiness

The qualitative study employed four strategies to enhance the trustworthiness of the research, which are credibility, dependability, transferability, and conformability (Yadav, 2022). The first aspect of trustworthiness is credibility, which refers to internal validity, ensuring that the study measures what it intends to, particularly the concept of Ar Rahnu. This research selected Ar Rahnu officers as informants, who were identified and interviewed as previously discussed. They were asked to describe the concept of Ar Rahnu and explain how it works.

Secondly, dependability is an important aspect as it examines whether the results are consistent and repeatable. This criterion concerns whether the results can be duplicated and applied at another time. Dependability addresses the extent to which the research can be repeated in a similar context with comparable outcomes. To ensure dependability, the researcher employed a clear and systematic methodological approach, demonstrating that if the study were repeated on the same topic with the same informants, similar results would be obtained.

Next, transferability refers to external validity and concerns the extent to which the results can be applied to or replicated in other contexts or settings. It ensures that the results remain meaningful and relevant beyond the specific study environment. While this study is limited to Ar Rahnu practices, its results may be applicable to other locations and times, provided the focus remains on Ar Rahnu practices.

Last but not least is conformability. This criterion concerns the objectivity and neutrality of the results. It must be based on the informants' insights rather than the researcher's personal opinions or biases. To ensure conformability, steps must be taken to verify that the results reflect the informants' expertise, not the researcher's preferences. One way to achieve conformability is through the use of triangulation.

3.11 Conclusion

This chapter overall describes the research methodology adopted in the study. The researcher used qualitative research, which includes the research design, population and sampling technique, data collection method, and the steps taken in data analysis to establish the validity and reliability of the study. Data collection method must be carried out methodically to ensure the accuracy of the analysis. The in-depth interview process is explained in detail, focusing on its implementation using a strict protocol and procedure. Based on the research methods discussed in this chapter, the next chapter will present the findings and analysis of the results.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings and analysis of the results based on the listed themes. The first theme focuses on the informants' views on Ar Rahnu, from both an Islamic perspective and the current Ar Rahnu practices within their institutions. The second theme studies the challenges faced by Ar Rahnu within their institutions. The final theme addresses potential solutions to the challenges of Ar Rahnu.

The discussion will begin with the background of the informants, followed by the findings and analysis of this research. The findings obtained from this study primarily aim to answer the research questions based on the data collected from the informants. The discussion will also address these research questions and meet the objectives of this study. The researcher will explain the data findings and analysis in detail. Overall, this chapter will provide answers to the research objectives.

4.2 Background of the Informants

There are four informants who have been selected based on their expertise as practitioners in the Ar Rahnu field. Two of them are from banking institutions, while the other two are from non-banking institutions, consisting of Ar Rahnu officers. The list of selected informants is as follows:

Table 4.1
Background of the Informants

Informant Code Name	Institution	Gender
P1	Bank Rakyat	Male
P2	Agro Bank	Female
P3	Ar-Rahn	Male
P4	Pos Malaysia	Female

Source: Developed from this study

4.3 The Current Ar Rahnu Practices

Based on the interviews and analysis, Ar Rahnu is a form of micro financing that involves pledging collateral assets. As the main objective of this study, the researcher will examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions in the northern states of Perlis and Kedah. As a result, the first discussion will address the first research question: 'What are the current practices of Ar Rahnu in selected Islamic banking institutions and non-banking Ar Rahnu institutions?'

Based on the interview, all of the informants stated that the current Ar Rahnu practices within their institutions are based on *tawarruq*. During the interview process, all of them provided the same response as follows:

"*A type of Islamic pawnbroking is Bank Rakyat's Ar Rahnu* ***Tawarruq***. *It involves a two-step transaction. First is pledge. A customer pledges an asset, usually gold, to the bank as collateral. Second is sale and repurchase. The bank then buys the collateral from the customer at an agreed price and immediately sells it to a third party. The customer then* *buys back the asset from the third party, usually at a higher price (installments or lump sum), which includes a profit margin for the bank. This process is structured to avoid riba (interest), and the added price is considered a profit margin for the bank, not a loan with interest"* (P1).

"*In Agro Bank, the Shariah concept used is* ***tawarruq.*** *Tawarruq involves two separate sales contracts. The first contract involves the sale of an asset by the seller, the bank, to the buyer, the customer, on a deferred basis. Subsequently, the buyer of the first sale transaction will sell the same asset to a third party for cash*" (P2).

"*In Ar Rahn, we use the* ***tawarruq*** *concept. Tawarruq is a short-term financing where the customer will pledge gold as collateral for the financing facility provided. The customer purchases commodities from Ar-Rahn at the selling price with deferred payment. The customer then delegates Ar-Rahn to sell the purchased commodities to a third party in cash equivalent to the amount of financing provided to the customer"* (P3).

"Now at Ar Rahnu Pos, we use ***tawarruq****. When a customer brings in their gold, we assess its value and offer them a loan equivalent to a percentage of that value, and sell it to a third party for cash"* (P4).

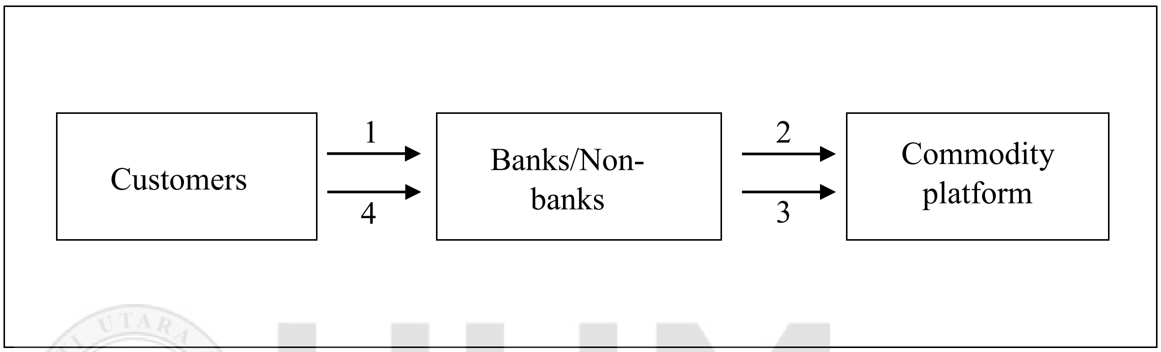
4.3.1 Tawarruq Practices

To begin the analysis, the researcher examined the current Ar Rahnu practices between banking and non-banking institutions. The results from P1, P2, P3, and P4 show that the current Ar Rahnu practices adopt the *tawarruq* concept. Based on the informants' responses, most Ar Rahnu institutions, whether banking

(Bank Rakyat and Agro Bank) or non-banking institutions (Ar-Rahn and Pos Malaysia), now utilize the *tawarruq* concept. They must adhere to the standards outlined in the guidelines. According to Rahman & Kassim (2017), Ar Rahnu providers follow their own set of rules and policies. Saharan et al. (2021) stated that the majority of operators have adopted and implemented Ar Rahnu based on *tawarruq* to ensure conformity with Shariah and to offer customers, particularly Muslims, with genuine Islamic products. To clarify how the concept of *tawarruq* works in Ar Rahnu, Bahari et al. (2022) explained the *tawarruq* arrangement, where the trade of commodities occurs before customers are given credit. It is mandatory to sell and purchase commodities through the *tawarruq* platform prior to funds being disbursed to customers. More than two contract parties may be involved in asset trading on the *tawarruq* platform.

Overall, based on the interviews, the first step in the *tawarruq* process involves a customer pledging an asset, usually gold, to the institution as collateral in exchange for financing. The second step is a sale and repurchase arrangement. The institution purchases the customer's asset at an agreed-upon price and immediately sells it to a third party for cash, equivalent to the amount of financing granted to the customer. This transaction is typically done at market value. In this context, the institution acts as an intermediary, facilitating the sale of the asset to the third party and the subsequent repurchase from that third party on behalf of the customer. The customer then repurchases the asset (or its equivalent in commodities) from the third party, via the institution, on a deferred basis, usually with an agreed-upon profit margin. The customer repays the financing, along with the agreed profit margin, to the institution over time. The repayment can be made either in installments over six months or as a lump sum at the end of the term. Once the full payment is made, the asset is returned to the customer. All of the financing process of sale and purchase of commodities is done through the system.

Figure 4.1
Ar Rahnu Using the Tawarruq Structure



Source: Self Construct

Based on Figure 4.1, it illustrates how Ar Rahnu in the *tawarruq* works through several steps.

1. Customers approach banks or non-banks for financing by pledging collateral assets.

2. Banks or non-banks sell the customer's asset to a third party for cash through the commodity platform and act on behalf of the customers to facilitate the transaction.

3. Banks or non-banks then repurchase the same asset from the third party through the commodity platform and act on behalf of the customers to facilitate the transaction.

4. Customers then repurchase the asset via banks or non-banks and receive the financing. The customers must repay the financing according to the agreement to the banks or non-banks.

Besides the *tawarruq* practices of the selected institutions, under the same theme of *The Current Ar Rahnu Practices*, the question of 'What are the Ar Rahnu policies?' also arises. Based on the interviews and analysis, the differences in maximum financing amounts and financing tenures across the selected institutions are summarized in Table 4.2 below.

Table 4.2
Differences in Maximum Financing Amounts and Financing Tenures

Institution	**Maximum Financing Amount (RM)**	**Financing Tenure**
Bank Rakyat	350,000	18 months
Agro Bank	300,000	36 months
Ar-Rahn	300,000	12 months
Pos Malaysia	250,000	12 months

Source: Developed from this study

According to Table 4.2, it provides a summary of the maximum allowable financing amounts and the maximum financing tenures offered by Ar Rahnu providers, including both banking and non-banking institutions. The amount of financing granted to customers depends on the bank and Ar Rahnu institutions (Hisham et al., 2013). Bank Rakyat offers the highest maximum allowable financing amount of up to RM350,000. Meanwhile, both Agro Bank and Ar-Rahn offer the same cumulative financing amount of up to RM300,000, while Pos Malaysia offers up to RM250,000. As for the financing tenure, it can vary depending on the specific institution and may be shorter or longer, subject to the terms and conditions set by the Ar Rahnu provider. Agro Bank offers the longest financing tenure, with 36 months or 3 years. According to Informant P2, Agro Bank provides one of the longest tenures among Ar Rahnu facilities compared to other Ar Rahnu providers, which is one of its advantages. The shortest financing tenure is offered by Ar-Rahn and Pos Malaysia, with 12 months or 1 year.

4.4 The Challenges of Ar Rahnu

The next discussion focuses on the challenges of Ar Rahnu. Based on the interviews and analysis, there are several challenges affecting the Ar Rahnu services provided by both banking and non-banking institutions. As the second objective of this study, the researcher will study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers in the northern states of Perlis and Kedah. As a result, the second discussion will address the second research question: 'What are the challenges faced by selected Islamic banking institutions and non-banking Ar Rahnu providers in implementing Ar Rahnu?'

Based on the interview, all of the informants stated that there are several challenges regarding the Ar Rahnu services faced within their institutions. During the interview process, all of them provided answers regarding the challenges based on their experience and observations, especially the main challenges, which are as follows:

"The main issue faced in running an Ar Rahnu service is **gold price volatility***. Fluctuations in gold prices can significantly affect the value of the collateral and the loan-to-value (LTV) ratio. If gold prices suddenly drop, the value of the pledged gold may decrease, which could lead to potential losses for the institution if the customer defaults on the loan"* (P1).

"The main issue in running the Ar Rahnu service is the **possibility of fake gold being pledged***. We emphasized the gold jewelry stamp, such as 916. It requires many procedures to ensure the authenticity of the gold. Besides, there is* **competition** *with other banking institutions in terms of financing margins, such as 75% to 80%, with 80% being considered the highest margin to compete with other banks"* (P2).

"One of the main issues is **competition** *from Ar Rahnu***,** *Ar Rahnu banks, and conventional pawnshops. The competition from Ar Rahnu itself includes Ar Rahnu YAPEIM, Ar Rahnu Pos Malaysia, Ar Rahnu Bank Islam, Ar Rahnu Bank Rakyat, Ar Rahnu Co-opbank, and Ar Rahnu Agro Bank. There is a lot of competition now. Many have already opened Ar Rahnu services, whereas there were fewer in the past"* (P3).

"The main issue with Ar Rahnu is **competition***. Currently, many institutions offer Ar Rahnu services. Sometimes, customers look for low safekeeping fees, while other times, they seek higher financing margins. Some customers don't care about the financing but*

prioritize low safekeeping fees. Some customers who care about the financing will prioritize higher financing margins. It has pros and cons" (P4).

4.4.1 Gold Price Volatility

Basically, there are various challenges affecting the Ar Rahnu services within the respective institutions. Other challenges of Ar Rahnu can also be found in the literature review. Based on the interview, Informant P1 stated that the main challenge for Bank Rakyat is gold price volatility. Gold prices tend to vary significantly over certain periods (Ritonga et al., 2023). Bank Rakyat must closely monitor the current price of gold, as this is important for customer information. This is because the value of the collateral asset, which is gold, directly impacts the financing amount and terms. As a result, the financing amount that Bank Rakyat can offer or the amount a borrower can receive may change depending on gold prices.

According to Informant P1, gold price fluctuations can significantly affect the value of the collateral and the loan-to-value (LTV) ratio. If gold prices suddenly drop, the value of the pledged gold can decrease, which could lead to potential losses for the institution if the customer defaults on the financing. On the other hand, if gold prices rise dramatically, the institution may face potential under-collateralization because the financing amounts are fixed at the time of the pledge, and the customer may end up repaying less than the current value of the gold. Hence, Harahap (2017) stated that both customers and the bank may experience issues as a result of gold price volatility.

4.4.2 Fake Gold Pledged

In Ar Rahnu, collateral assets are mandatory to obtain financing. Gold is typically brought by customers for this purpose. However, there is concern about fake gold in the market. According to Informant P2, fake gold is one of the main challenges in providing Ar Rahnu services. Since Ar Rahnu relies on collateral assets for financing, there is a possibility that fake gold could be pledged as collateral. This issue raises concerns for both institutions and customers. Institutions face challenges in accurately determining the value of the *marhun*, while customers may struggle to obtain financing. Informant P2 acknowledged that gold fraud could potentially occur at the institution.

For instance, numerous fraud cases involving gold plating or lead-filled gold have been reported. Lead, a substance that can mimic gold, is commonly used in fraudulent gold schemes to increase the weight of the gold. When mixed with pure gold, the presence of lead may go undetected by some gold-testing equipment. This issue has led many Ar Rahnu institutions to only accept certain types of gold in order to avoid receiving gold that has been fraudulently altered with lead. Regarding this issue, Rasmin & Markom (2014) stated that gold fraud can result in turnover loss because fake gold is worthless at auction.

4.4.3 Competition

In accessing financing, the amount will be determined based on the value of *marhun* (collateral assets). For margin of financing, it is based on the loan-to-value (LTV) ratio, which defines how much a customer can borrow against the value of the collateral assets. In addition to the financing, there is an imposition of a safekeeping fee in Ar Rahnu. The customers are charged for the custody, storage, and protection of collateral assets. The fee is based on factors like the weight (in grams) of the gold and the financing tenure. This fee is usually fixed and clearly stated in the terms of the contract, as noted by Azman et al. (2020).

Regarding the margin of financing and the safekeeping fee, all informants agreed that both are not the same, as they depend on the respective institutions. This result is similar to the findings of previous studies by Azman & Kassim (2017), where the margin of financing and safekeeping fees vary by each of the Ar Rahnu providers. All in all, banking institutions, including Bank Rakyat and Agro Bank, are more likely to follow uniform regulatory practices, while non-banking institutions may have more flexibility in determining the margin of financing and fees, though they still adhere to basic laws governing the industry.

Based on the results from P2, P3, and P4, the researcher found that the most common main challenge faced by the institutions is competition. This clearly illustrates that competition arises among players in the pawn broking industry, particularly between banking and non-banking institutions, such as Ar Rahnu providers. As for the competition regarding the financing margin and safekeeping fee, Informant P2 mentioned competition concerning the financing margin, while Informant P4 mentioned competition concerning both the financing margin and the safekeeping fee. Both informants are from different entities.

Following the study by Saiman & Mohd Zainuddin (2022), which discovered that Ar Rahnu providers face challenges due to competition among pawnbrokers who consider margin values and high loan amounts, aside from the low safekeeping fees charged by the institution. Maamor & Ismail (2010) clarified that competition in providing and allocating funds through Ar Rahnu to the community is unavoidable. Based on experience and observation, the researcher noted that, among the four institutions involved, the Ar Rahnu counter with the longest queue time for customers is at Bank Rakyat, compared to Agro Bank, Ar-Rahn, and Pos Malaysia.

Table 4.3
Differences in Financing Margins and Current Profit Rates

Institution	**Financing Margin**	**Current Profit Rate/RM100**
Bank Rakyat	80%	RM0.60 – RM0.85
Agro Bank	80%	RM0.55 – RM0.80
Ar-Rahn	80%	RM1.20 – RM1.70
Pos Malaysia	75%	RM0.56 – RM0.85

Source: Developed from this study

According to Table 4.3, it shows the financing margins and current profit rates offered by Ar Rahnu providers, which consist of both banking and non-banking institutions. Based on a comparison of financing margins among the Ar Rahnu providers, it is found that the financing margin similarity is as high as 80%, with Bank Rakyat, Agro Bank, and Ar-Rahn offering this margin. Meanwhile, Pos Malaysia offers a financing margin of up to 75%. This result clearly shows the competition among Ar Rahnu providers in terms of the margin of financing, as mentioned by Informant P2. At the same time, these Ar Rahnu providers have met the maximum lending margin, which can go up to 80% of the *marhun* value (Rasmin & Markom, 2014). As the institutions involved adopted *tawarruq* in Ar Rahnu, the terminology used shifted to profit rates. For profit rates, they are charged within a range of RM0.55 to RM1.70 per RM100 of the *marhun* value. Ar-Rahn charged profit rates ranging from RM1.20 to RM1.70, which are slightly higher compared to all others. The rest of the providers charged lower monthly profit rates for their services.

In contrast to Ar Rahnu, conventional pawn broking also has its own customer base. Individuals have the right to choose which institution they prefer to access for financing. They are several key driving factors that influence some Muslims to prefer conventional pawn broking over Islamic pawn broking. Under the same theme of *The Challenges of Ar Rahnu*, the question 'What are the driving factors in that direction?' also arises. Based on the interviews, the Ar Rahnu officers responded as follows:

"The key driving factors are ***familiarity and tradition****. Conventional pawnshops have been around for a long time, and many customers are more familiar with their processes. The second factor is* ***speed and accessibility****. Conventional pawnshops often offer quicker access to funds, with minimal documentation or formalities"* (P1).

"In terms of customers, ***with a bank, the process is quite slow*** *and takes about* ***20 to 25 minutes for each piece of gold****. This is because, as banks, we need to process*

documentation, assess the gold, override, and check the system for CTOS based on the customer's name and IC. If customers fail the CTOS check under Section D (blacklist), they are prohibited from receiving financing. This is a condition set by BNM. The information is also protected under the PDPA. As for ***conventional pawnshops, they only require the gold and IC"*** (P2).

"It is because it's ***quick and easy to negotiate the price****. Yes, the* ***transaction is fast****. However, people* ***remain hesitant*** *about using Ar Rahnu,* ***thinking it is similar to a bank*** *with* ***slow procedures and numerous forms to complete****. They are also* ***not fully aware of the sin of riba"*** (P3).

"Most people are ***not aware of the existence of Ar Rahnu****. Second, conventional pawnshops are* ***easier*** *because they do not have a system like ours. We have the PDPA to protect customer information, which is part of our system. As for conventional pawnshops, they* ***do not have such a system****. People are used to going to conventional pawnshops, a* ***practice passed down through generations****. Conventional pawnshops are* ***simple and easy****; customers* ***just give the gold and IC****, and the staff enters the information* ***without the need for a form****. Customers* ***can demand the amount of financing*** *they want"* (P4).

The informants described a simple and easy way for people to access financing at conventional pawnshops. This straightforward process is supported by Manihuruk et al. (2025), who state that conventional pawnshops provide quicker and easier access to cash compared to Islamic pawnshops.

4.5 The Solutions to Ar Rahnu Challenges

The final discussion focuses on the solutions to the challenges faced by Ar Rahnu. Based on the interviews and analysis, several solutions have been offered by Ar Rahnu officers. As the last objective of this study, the researcher will explore the solutions implemented by selected Islamic banking institutions and Ar Rahnu institutions in addressing the challenges of Ar Rahnu in the northern states of Perlis and Kedah. As a result, the final discussion will address the third research question: 'How do selected Islamic banking institutions and non-banking Ar Rahnu institutions address the challenges in Ar Rahnu implementation?'

Based on the interview, all of the informants identified several solutions to the challenges faced by Ar Rahnu services within their institutions. From the data collected, these Ar Rahnu solutions were clarified by the Ar Rahnu officers, who provided the following answers:

"The best plan to mitigate the issue of running Ar Rahnu services is to ***apply regular reassessments of collateral values*** *and* ***adjust financing margins based on market conditions****. This helps manage the challenges of gold price volatility. By doing so, we can better align financing margins with the current market value. Institutions might consider* ***setting dynamic loan-to-value (LTV) ratios*** *that fluctuate in response to market shifts, giving them greater flexibility to manage the impact of price fluctuations"* (P1).

"One of the best plans to mitigate the issue is for Ar Rahnu officers to ***be aware of and alert to fake gold****. They should also* ***frequently attend town halls or courses*** *to stay*

updated on the latest information about fake gold in the market. Previously, there was ***one day a week dedicated to making sales and distributing pamphlets****. We have* ***participated in many events****, frequently collaborating with agencies such as MOA, Jabatan Pertanian, Hari Peladang (HPPNK), PPK, and FAMA.* ***Marketing such as radio*** *for campaigns. The big event, like last year's MAHA 2024, is especially important for sales staff to attend. We* ***approach customers****, such as those at restaurants, and ask about their financing needs, such as loans for small business owners"* (P2).

"Our innovation now allows customers to make profit and financing payments ***online without having to visit the counter****. These online payments are automatically integrated into the branch system, and customers do not need to inform us. It is through* ***ArrahnPay****. Ar-Rahn staff are regularly called to* ***undergo training courses and gold assessment tests*** *from time to time to test and assess the competency in gold testing and the quality of gold. In addition, we have the* ***ARDC unit****, which regularly conducts research, especially in testing the authenticity of gold to combat the increasing prevalence of fake gold syndicates"* (P3).

"One of the best plans is to ***focus more on marketing****. As for us, we do marketing through flyers and pamphlets to be distributed. Pos Malaysia also markets through channels such as* ***radio****, but it's quite expensive. So far, we have only used* ***flyers distributed from house to house****. Flyers for those who have matters here. Sometimes we* ***set up a booth, distribute flyers, and provide jewelry cleaning services****. At the same time, we also* ***promote our company"*** (P4).

4.5.1 Manage Collateral Value

There are several mechanisms used by institutions to overcome the challenges in providing Ar Rahnu services. Informant P1 stated that, to manage the challenges of gold price volatility, Ar Rahnu institutions could consider implementing regular reassessments of collateral value. By closely monitoring market conditions and adjusting the valuation of gold collateral regularly, institutions can better align financing margins with the current market value. Ritonga et al. (2023) noted that, by closely monitoring and responding to fluctuations in gold prices, institutions can maximize profits from gold pawns used as collateral and maintain operational stability. This approach would also help mitigate the risk of misvaluing the collateral, ensuring that financing remains proportionate to the actual value of the gold. Since Ar Rahnu employs collateral assets for financing, Azman et al. (2016) reported that an increase in gold being pawned suggests that Ar Rahnu may be disbursing more cash.

Furthermore, institutions might consider setting dynamic loan-to-value (LTV) ratios that fluctuate in response to market shifts, providing them with greater flexibility to manage the impact of price fluctuations. Additionally, establishing clear and transparent communication with customers about potential adjustments to financing amounts based on market changes would help them better understand the process and avoid unexpected losses or difficulties in obtaining financing.

4.5.2 Measures to Assess Pledged Gold

Due to the possibility of fake gold circulating within the institution, Informant P2 stated that Ar Rahnu officers should be especially aware of and alert to fake gold. In addition, they should regularly attend town halls or courses to stay updated on the latest information about fake gold in the market. Upon completing the courses, officers will be awarded a certificate of completion, which is one of the requirements to enhance their knowledge and skills. According to Azli et al. (2017), staff competency is crucial in determining the purity of gold, particularly in gold jewelry. Informant P2 also mentioned that different institutions have specific requirements regarding the purity of gold. For instance, Agro Bank accepts various types of gold with purities of 999, 950, 916, 875, 835, and 750. As stated by Rasmin & Markom (2014), every Ar Rahnu institution needs to develop gold purity testing equipment. To test the purity of gold, Informant P2 explained the steps to follow once the institution has received the pledged gold from the customers.

Upon receiving the gold, they begin by examining the stamp on the jewelry using a magnifying lens. The jewelry is typically marked with the stamp 916. Next, they test the jewelry with a magnet. If the jewelry contains iron, it will stick to the magnet and will be rejected. Following this, they use a scale and conduct a density test. They weight the jewelry and then immerse it in water to observe the density of the gold content. The equipement used for these tests should have a certificate of determination of weights and measures, which must be submitted and certified to comply with the Weights and Measures Act 1972, as stated in Form-D. After weighing the jewelry and performing the density test, they can determine the gold content based on its density. If the gold is 916, the reading should show a density corresponding to 916. This test also helps in calculating the *marhun* value to be given. 916 gold has a slightly lower density due to its alloy content, while 999 pure gold is denser, softer, and contains no mixtures.

Similarly, Informant P3 emphasized that Ar-Rahn staff are consistently required to undergo training courses and gold assessment tests. These training sessions are held periodically to ensure that staff remain up-to-date with the latest techniques and standards in gold testing. The tests are designed not only to assess their competency in evaluating the purity and quality of gold but also to enhance their skills in this area. This ongoing process of training and assessments helps maintain high standards of accuracy and reliability in gold evaluations, ensuring that the institution upholds its reputation and compliance with industry requirements. Besides, Ar-Rahn also has the ARDC unit, or Ar-Rahn Development Centre, which regularly conducts research, particularly in testing the authenticity of gold to combat the increasing prevalence of fake gold syndicates.

4.5.3 Improve Customer Awareness

There is no doubt that the number of Ar Rahnu providers is growing, with both banking and non-banking institutions participating. As a key strategy, further efforts should be made to raise public awareness. Given the fierce competition among Ar Rahnu providers, actions should be taken to improve customer awareness. This issue was frequently mentioned by Ar Rahnu officers, including Informants P2, P3, and P4, in relation to the awareness of Ar Rahnu products. In response to this situation, each informant presented solutions aligned with their respective institutions' actions to address the challenges, emphasizing the enhancement of the customer experience.

Informant P2 mentioned that Agro Bank has dedicated one day a week to sales and pamphlet distribution. The bank has also participated in many agriculture-related events to reach its target audience. Additionally, it has engaged customers outside the branch, such as at restaurants, to promote Ar Rahnu products and has used radio campaigns for marketing. Meanwhile, Informant P4 noted that Pos Malaysia, the main courier service provider, distributed flyers door-to-door and marketed through channels such as radio, booths, and jewelry cleaning services to promote Ar Rahnu services. Both institutions utilized traditional marketing methods.

According to Zambahari (2013), creating awareness of Ar Rahnu products using various promotional tools, such as advertising, is an effective strategy to raise public awareness. Ar Rahnu providers also need to precisely identify their target market to promote their products effectively. As for the response from Informant P3, it focuses on the ease of transactions. Ar-Rahn innovated with the introduction of ArrahnPay, a platform that allows customers to make online payments without having to visit the counter. These online payments are automatically integrated into the branch system, so customers do not need to inform us. Customers are the driving force behind the business, so they should be well-educated and aware.

4.6 Conclusion

This chapter discusses the results obtained from the researcher's analysis using the qualitative research method. The results were gathered through interview sessions conducted with four informants. The explanation covers all the main themes of this study: the current Ar Rahnu practices within their institutions, the challenges faced by Ar Rahnu within their institutions, and the solutions to the challenges of Ar Rahnu. The researcher has answered all the research questions and met the research objectives by discussing the results of this study. The next chapter will provide a discussion on the results, limitations, and recommendations of this study.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusion and the recommendations from the researcher's perspective regarding implementation of Ar Rahnu in the northern states of Perlis and Kedah. The researcher aims to examine current Ar Rahnu practices, the challenges faced by Ar Rahnu, and potential solutions to Ar Rahnu challenges. This chapter will summarize the results of the study, followed by a discussion of those results. Additionally, the limitations and recommendations of the study will also be discussed. Finally, this chapter concludes with appropriate recommendations concerning Ar Rahnu services for improvement.

5.2 Summary of Results

The main purpose of this study can be divided into several aspects. Firstly, the researcher aims to examine the current Ar Rahnu practices in selected Islamic banking and Ar Rahnu institutions in the northern states of Perlis and Kedah. The second objective is to study the challenges faced by selected Islamic banking and Ar Rahnu institutions as Ar Rahnu providers in these states. The final objective is to explore the solutions implemented by selected Islamic banking institutions and Ar Rahnu institutions in addressing the challenges faced by Ar Rahnu in the northern states of Perlis and Kedah. To achieve these objectives, the researcher employed a qualitative research method and selected four knowledgeable informants. All of them were practitioners in the field of Ar

Rahnu. After completing the interview sessions, the data gathered from the informants were used to analyze the results. Three research questions are addressed in the findings and analysis of the study results. The study explores three major themes that correspond to the research objectives: current Ar Rahnu practices, the challenges of Ar Rahnu, and the solutions to Ar Rahnu challenges.

In summary, the results revealed that the first theme highlighted the current Ar Rahnu practices, which adopt the *tawarruq* concept in all the institutions involved. Based on the informants' responses, most Ar Rahnu insitutions, whether banking (Bank Rakyat and Agro Bank) or non-banking institutions (Ar-Rahn and Pos Malaysia), now utilize the *tawarruq* concept. The next theme revealed that the primary challenge affecting Ar Rahnu services in the respective institutions is competition. Today, the increasing number of Ar Rahnu providers has led to greater competition compared to the past. This issue is common in any business, including Ar Rahnu. The third theme revealed that several mechanisms are used by the institutions to overcome challenges in providing Ar Rahnu services. One of the most frequently mentioned solutions by Ar Rahnu officers is to raise customer awareness of their Ar Rahnu products. Some of the proposed solutions have been implemented through channels such as flyers, official online payment platform, radio, and attending events to promote Ar Rahnu.

5.3 Limitations and Recommendations of the Study

The limitations of the study are important to discuss in order to guide and improve future research on this topic. Several limitations were identified during the course of this study. First, the research was geographically restricted to the northern states of Perlis and

Kedah due to the lack of previous research in these areas. This geographical limitation means that the results may not fully reflect practices in other regions with differing socio-economic conditions. Additionally, the study focused on a limited number of Ar Rahnu institutions in these northern states, which may not capture the diversity of practices across Malaysia. Furthermore, the study employed a qualitative approach, conducting in-depth interviews with informants only from Perlis and Kedah. Consequently, the results may not be fully representative of all Ar Rahnu institutions across the country.

Based on the limitations, several recommendations are made to guide future research on this topic. These recommendations aim to contribute to the development of a more comprehensive literature on the operations and implementation of Ar Rahnu services, as the current study does not address all aspects. Future research should consider covering all states in Malaysia to provide a more holistic perspective. Additionally, a quantitative approach could be employed to complement the qualitative results. Expanding the sample size to include a broader range of Ar Rahnu providers across Malaysia, including those beyond rural areas, would allow for a more thorough assessment of Ar Rahnu as a micro financing tool. A larger sample size would enable more comprehensive results and generate more robust outcomes, which can be achieved by increasing the number of participants in future studies.

5.4 Conclusion

To sum up, Ar Rahnu services play a vital role in the micro financing field today, offered by both banking and non-banking institutions. This contrasts with conventional pawn broking, which often focuses more on profiting from individuals in need rather than offering genuine assistance. The study shows that Ar Rahnu, as a medium of micro financing, provides a comprehensive solution to the community for various purposes. Customers are empowered to make informed decisions based on the range of products offered by Ar Rahnu providers. The research aimed to examine current Ar Rahnu practices in the northern states of Perlis and Kedah. To ensure the sustainability of Ar Rahnu services and their dominance within the pawn broking industry, new methods must be developed to address existing challenges. On the banking side, although there is a stronger focus on profit, banks should consider promoting the Ar Rahnu facility as an accessible microfinance option, particularly when people seek financing. Ar Rahnu represents a strategy to strengthen Islamic financial institutions (IFIs) and boost the Islamic economy in Malaysia. Ultimately, the researcher believes that Ar Rahnu services will continue to thrive in the future if effectively utilized by Muslims.

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Appendix A

Interview Permission Letter

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20/1/2025

KEPADA YANG BERKENAAN

Memohon Kebenaran Menjalankan Temu Bual Bagi Kajian Kertas Penyelidikan Sarjana

Tuan/Puan,

Nama	:	Nor Hidayah binti Nor Hakimi
No. Matrik	:	833545
Program	:	Sarjana Kewangan dan Perbankan Islam
Mod Pengajian	:	Sepenuh Masa

Dengan hormatnya saya merujuk kepada perkara di atas. Saya merupakan seorang pelajar pascasiswazah di Pusat Pengajian Perniagaan Islam (IBS), Universiti Utara Malaysia (UUM), di bawah seliaan Dr Solehah Yahaya. Saya sedang menjalankan kajian bertajuk, "Ar Rahnu Sebagai Kemudahan Pembiayaan Mikro: Perbandingan Antara Institusi Perbankan dan Bukan Perbankan" sebagai sebahagian daripada keperluan untuk penganugerahan Sarjana.

2. Bagi melengkapkan keperluan pengajian peringkat Sarjana, para pelajar diwajibkan menjalankan Kertas Penyelidikan dengan kod kursus BPMZ69912. Oleh yang demikian, para pelajar perlu menjalankan kajian bagi mendapatkan maklumat di organisasi tuan. Segala maklumat, pendapat, dan maklum balas adalah sulit dan hanya akan digunakan untuk tujuan akademik sahaja.

Terima Kasih.

"SCHOLARSHIP, VIRTUE, SERVICE"

Yang Benar

Nor Hidayah binti Nor Hakimi (No. Matrik: 833545)
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Appendix B

Interview Questions

PELAKSANAAN AMALAN AR RAHNU SEBAGAI FASILITI PEMBIAYAAN MIKRO: KAJIAN TERHADAP INSTITUSI PERBANKAN DAN BUKAN PERBANKAN

1. Apakah amalan Ar Rahnu sekarang?
What are the current Ar Rahnu practices?

2. Apakah polisi Ar Rahnu?
What are the Ar Rahnu policies?

3. Adakah amalan Ar Rahnu semasa berkesan memenuhi keperluan kedua-dua institusi dan pelanggan?
Does the current Ar Rahnu practice effectively meet the needs of both the institutions and the customers?

4. Apakah isu utama dalam menjalankan perkhidmatan Ar Rahnu?
What are the main issues in running the Ar Rahnu service?

5. Apakah respon pelanggan terhadap institusi Ar Rahnu?
What is the customer's response to the Ar Rahnu institution?

6. Sebilangan orang Islam lebih suka pajak gadai konvensional. Apakah faktor yang mendorong ke arah itu?
Some Muslims prefer conventional pawn broking. What are the driving factors in that direction?

7. Apakah rancangan terbaik untuk mengurangkan isu utama dalam menjalankan perkhidmatan Ar Rahnu?
What is the best plan to mitigate the main issues in running the Ar Rahnu service?

8. Apakah jenis inovasi yang diperkenalkan untuk meningkatkan daya tarikan perkhidmatan Ar Rahnu?
What kinds of innovations have been introduced to increase the attractiveness of the Ar Rahnu service?

9. Bagaimanakah anda mengekalkan pematuhan Syariah dalam perkhidmatan Ar Rahnu untuk mengekalkan kesetiaan pelanggan?
How do you maintain Shariah compliance in the Ar Rahnu service to maintain customer loyalty?